

**GATEWAY AREA DEVELOPMENT DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**CERTIFIED PUBLIC ACCOUNTANTS**

## TABLE OF CONTENTS

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	Page
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1-2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS.....</b>	<b>3-7</b>
<b>FINANCIAL STATEMENTS:</b>	
Statements of Net Position .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	9
Statements of Cash Flows .....	10
Notes to Financial Statements .....	11-21
<b>SUPPLEMENTAL INFORMATION:</b>	
<b>Other -</b>	
Schedule of Shared Costs .....	22
Schedule of Revenues and Expenses Compared to Budget – Joint Funding Administration Program.....	23
Statement of Completed Grants – Area Agency on Aging .....	24-25
Schedule of Revenues and Expenses - Consumer Directed Option (CDO) Program .....	26
Schedule of Revenues and Expenses - Workforce Investment Act .....	27
Statement of Operations by Program and Supporting Services .....	28
Schedule of Expenditures of Federal Awards .....	29-31
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....</b>	<b>32-33</b>
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 .....</b>	<b>34-35</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>36-37</b>
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....</b>	<b>38</b>
<b>CORRECTIVE ACTION PLAN .....</b>	<b>39</b>

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Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

We have audited the accompanying financial statements of Gateway Area Development District (the "District") as of June 30, 2013 and 2012, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gateway Area Development District as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplementary schedules and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of Gateway Area Development District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gateway Area Development District's internal control over financial reporting and compliance.

*Kelley, Dalloway & Company, PSC*

September 30, 2013

**GATEWAY AREA DEVELOPMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2013**

Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A. One of fifteen statewide Area Development Districts established in 1969, its mission is basic: to bring local civic and governmental leaders together to accomplish major objectives and take advantage of opportunities which cannot be achieved or realized by those governments acting alone. Also it serves as a focal point of a necessary federal-state-local partnership for improvement of the quality of life in the region and the Commonwealth. GADD serves as a forum, clearinghouse, technical center, and a convener for the five-county area of Bath, Menifee, Montgomery, Morgan, and Rowan counties. As outlined in KRS, the ADD acts as the planning and administrative entity for the region.

GADD is governed by a Board of Directors comprised of elected officials from the counties and communities within the District, as well as non-elected citizen members representing a cross-section of the region's social and economic institutions. The office is managed by an Executive Director who reports directly to the Board. Office staff reports to the Executive Director.

GADD is also recognized by the Internal Revenue Service as "Gateway Area Development District, Inc." as a 501 (c) (3) tax-exempt organization determined eligible to receive tax-deductible contributions. Due to massive destruction the March 2, 2012 storms and tornados caused in its counties, GADD Inc. currently serves as the fiscal agent for the Morgan County Tornado Relief Fund.

This discussion and analysis narrative provides an overview of GADD's financial performance during the 2013 fiscal year, as compared to the prior fiscal year ending June 30, 2012. Please read the following in conjunction with the audited financial statements and the accompanying notes.

#### **OVERVIEW OF THE ANNUAL REPORT**

This annual report includes the management's discussion and analysis, the independent auditors report, the GADD's audited financial statements, and notes to the financial statements. The notes to the financial statements explain in detail some of the information in the financial statements.

#### **REQUIRED FINANCIAL STATEMENTS**

GADD's financial statements utilize the accrual basis of accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board. GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. As such, the entity-wide financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These statements display information about the entity as a whole.

GADD does not utilize multiple funds in accounting for its financial activities; therefore fund type statements are not presented. The statement of net position details GADD's investments (assets) and debt (liabilities). The statement of net position is very similar to the balance sheet. The statement of revenues, expenses and changes in net position details revenue classified by source and expenditures by object for separate fiscal years and the statement of changes in net position takes into account adjustments, if any, for prior year events.

## GADD's FINANCIAL ANALYSIS

The enclosed financial statements indicate that the overall financial condition of GADD improved for the fiscal year ended June 30, 2013 as summarized in the following table.

### Condensed Statement of Net Position

	<u>FY 2013</u>	<u>FY 2012</u>
Current Assets	\$ 1,664,439	\$ 1,436,720
Notes Receivable, long term	414,184	424,725
Capital Assets	992,910	1,016,001
Amortized Assets	<u>12,303</u>	<u>12,665</u>
<b>Total Assets</b>	<b><u>\$ 3,083,836</u></b>	<b><u>\$ 2,890,111</u></b>
Current Liabilities	\$ 416,858	\$ 445,046
Long Term Liabilities	<u>1,219,800</u>	<u>1,244,557</u>
Total Liabilities	<u>1,636,658</u>	<u>1,689,603</u>
Net position		
Invested in capital assets	(147,969)	(138,737)
Restricted for depreciation	39,831	33,495
Restricted for economic development	558,724	504,709
Unrestricted	<u>996,592</u>	<u>801,041</u>
Total Net Position	<u>1,447,178</u>	<u>1,200,508</u>
<b>Total Liabilities &amp; Net Position</b>	<b><u>\$3,083,836</u></b>	<b><u>\$2,890,111</u></b>

At the close of the fiscal year, assets exceeded liabilities by \$1,447,178. Total assets increased significantly (\$193,725) from June 30, 2012 primarily due to a \$154,157 increase in unrestricted or operating cash-on-hand. The outstanding notes receivable decreased this year by \$57,519, resulting from scheduled payments, as no new loans were issued in FY 2013.

GADD's normal operating liabilities decreased by approximately 6.33% in FY 2013. Long term liabilities also decreased in direct relation to the annual mortgage payment required by the USDA Rural Development and required payments to the Kentucky Housing Corporation.

Overall, the increase in Total Assets and the decrease in Total Liabilities causes fiscal year 2013 to reflect a 6.70% net increase in Total Assets and Total Liabilities & Net Position from June 30, 2012.

GADD's revenues earned and expenses incurred throughout fiscal year 2013 were in accordance with management's expectations. GADD closed the year with an overall increase to net position of \$246,670, whereas fiscal year 2012 net position reflected an overall gain of \$145,694.

The following statement of revenues, expenses, and changes in net position provides a more detailed look.

## Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>FY 2013</u>	<u>FY 2012</u>
Federal revenues	\$ 757,472	\$ 756,591
State revenues	1,506,811	1,424,788
Local and in-kind	381,981	318,487
Revolving loan interest	<u>17,419</u>	<u>17,950</u>
<b>Total Revenues</b>	<u>2,663,683</u>	<u>2,517,816</u>
Expenses		
Salaries	614,867	646,364
Fringe benefits	312,992	317,576
Travel	52,258	57,408
Contractual	934,433	1,004,288
Other	<u>454,023</u>	<u>329,130</u>
Total Operating Expenses	<u>2,368,573</u>	<u>2,354,766</u>
<b>Operating Income (Loss)</b>	295,110	163,050
Non-operating Income (Expense)		
Bank interest	359	411
Interest expense	<u>(49,521)</u>	<u>(47,767)</u>
<b>Increase (Decrease) in net position</b>	245,948	115,694
Net position – beginning of year	1,200,508	1,054,814
Adjustments and changes	<u>722</u>	<u>30,000</u>
<b>Net Position – End of Year</b>	<u>\$1,447,178</u>	<u>\$ 1,200,508</u>

From June 30, 2012 to June 30, 2013, GADD's total net position increased by 20.55% or \$246,670. Current fiscal year revenues increased 5.79% (or \$145,764) from fiscal year 2012 while expenses only increased slightly (less than 1%). Operating income reflects a net gain of \$295,110 for the year, which is \$131,957 more than fiscal year 2012's net gain of \$163,050.

GADD's federal and state revenue attributable to externally-funded grants and contracts incurred a 3.80% (\$82,904) increase. Fiscal year 2013 activity was influenced by a newly-funded project (an EDA Technical Assistance Grant) and significant increases in two other projects (the Morgan/Wolfe Rural Development grant and the Consumer Directed Options program) along with Local Operations.

There are two primary types of local revenue. The first type is any money received by GADD that is not related to a specific program (such as the local county and city dues) or is from a non-governmental entity. The other type is a matching contribution to a federal or state funded

program by an individual, local government, or agency (such as county funding used to support the area senior citizens center's bus drivers) or is cash generated by the program (such as donations for meals). Local in-kind contributions represent any non-paid amount, such as volunteer time, for which a value can be readily calculated. Overall total local revenue from all sources, net of applied losses, increased 19.56% during fiscal year 2013.

An analysis of expenditures shows that both salaries and fringe benefits decreased during the current fiscal year, 4.87% and 1.44% respectively. These decreases were controlled by management's decision to not immediately fill current certain vacancies because of budgetary constraints.

Agency-wide travel expenses decreased by \$5,150 during fiscal year 2013, primarily due to management's emphasis on using company vehicles before allowing staff to use their personal vehicle and the elimination of some out-of-state conferences.

Contractual expenses, primarily related to the Area Agency on Aging, decreased by approximately 7% during the year. This is reflective of the cancellation of the Adult Day services sub-provider contracts and a change management made in the way it should report some Local Operations cash contributions.

Other or miscellaneous operating expenses for fiscal year 2013 reflected a significant increase (37.95%) caused primarily by the recognition of one-time matching contributions made on behalf of the Morgan/Wolfe RD grant (\$74,267) and the Hazard Mitigation project (\$28,059).

Non-operating bank interest income reflects a 12.41% increase. GADD was able to maintain a larger average cash-on-hand level during the year which helped offset the banks ongoing decline in interest rates. The interest expense is the annual amount associated with the three mortgage accounts GADD has with USDA Rural Development.

Adjustments or changes to net position represent occurrences that are not related to current year revenues or expenditures. In fiscal year 2013, GADD received cash from an old bank account which was thought to be closed out.

### **CAPITAL ASSETS**

GADD continued its investment in capital assets during fiscal year 2013. The amount includes property, equipment (including vehicles), building and land. Capital assets had a net balance of \$992,910 at June 30, 2013.

	<b>06-30-12 Balance</b>	<b>FY 2013 Additions</b>	<b>06-30-13 Balance</b>
Property and equipment	\$ 460,764	\$26,930	\$ 487,694
Building and land	<u>1,109,831</u>	<u>-</u>	<u>1,109,831</u>
Total fixed assets	1,570,595	26,930	1,597,525
Less: accumulated depreciation	<u>554,594</u>	<u>(50,021)</u>	<u>604,615</u>
Net	<u>\$ 1,016,001</u>	<u>\$(23,091)</u>	<u>\$ 992,910</u>



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

GADD considered many factors when initially setting the fiscal year 2013 budget and continued to monitor it carefully as the year's activity unfolded. Our Area Development District receives the majority of its funding from federal, state and special contracts. Because of this, a portion of our annual revenue is fairly steady except for state-imposed budget reductions. With contract responsibilities and expenses increasing, while the revenue is decreasing, it is very difficult to manage. It is a constant battle to bring in enough contracts to cover what we need to do for our region. Most of our contracts are on a reimbursement basis and some of our contractors and governmental entities are slow to pay. However we remain committed to providing as close to the same level of service as in years past to the extent funding allows. As a safeguard to be sure that there is no interruption of service, we have available to us a line of credit at the Whitaker Bank which will cover any temporary cash deficiency.

The major impact for fiscal year 2013-14 will be the same as this past year: a conscientious effort to (1) seek new federal and state funding sources and (2) acquire additional Performance Based contracts to offset the deficiency in the federal and state funded programs. Federal and state funding amounts must increase to help offset the costs required to properly administer those specific programs. Without such, management must rely upon Performance Based funding to contribute to those programs that fall short in sufficient funding, making GADD's dependency on external contracts a continued utmost importance.

Additionally, GADD remains concerned about the increases in the state's health insurance costs especially in light of federal mandates that are coming soon. Calendar year 2013 health insurance premiums were 2-3% higher than 2012's rate, and GADD is anticipating an even larger increase for calendar year 2014. These combined higher costs negatively impacts GADD's ability to hire full-time employees who receive a benefit package.

GADD has endured another difficult year, financially. Some staff vacancies were purposely not filled and other positions are under-funded. For example, stipulations of contracts like the Transportation Regional Planning require a full time employee but there aren't enough funds to cover a seasoned full time employee. It is a continual struggle to manage the agency's current workload, while seeking additional external contracts, with a limited number of staff and resources.

## **CONTACTING GADD**

The financial report is designed to provide GADD's citizens, investors, creditors, and other interested party's with a general overview of the agency's finances and to demonstrate GADD's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Gail K. Wright, Executive Director, at 110 Lake Park Drive, Morehead, KY 40351. Mrs. Wright may also be reached by phone at (606) 780-0090, ext. 2108 or at [gailk.wright@ky.gov](mailto:gailk.wright@ky.gov).

# GATEWAY AREA DEVELOPMENT DISTRICT

## STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
Current assets -		
Cash - unrestricted	\$ 575,676	\$ 421,519
Cash - restricted	487,281	466,384
Accounts receivable	533,860	434,217
Restricted notes receivable, net	67,622	114,600
Total current assets	<u>1,664,439</u>	<u>1,436,720</u>
Notes receivable, net of current portion	414,184	424,725
Amortized assets, net	12,303	12,665
Capital assets, net	992,910	1,016,001
Total assets	<u>\$ 3,083,836</u>	<u>\$ 2,890,111</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities -		
Accounts payable	\$ 136,720	\$ 156,343
Accrued payroll and payroll taxes	27,334	14,847
Accrued annual leave	39,357	38,495
Accrued interest payable	3,922	3,627
Other current liabilities	12,838	16,022
Deferred revenue	55,909	67,356
Funds held for Morgan County Tornado Relief Fund	113,645	121,844
Notes payable, current portion	27,133	26,512
Total current liabilities	<u>416,858</u>	<u>445,046</u>
Long-term debt	<u>1,219,800</u>	<u>1,244,557</u>
Total liabilities	<u>1,636,658</u>	<u>1,689,603</u>
Net position -		
Invested in capital assets, net	(147,969)	(138,737)
Restricted for depreciation	39,831	33,495
Restricted for economic development	558,724	504,709
Unrestricted	996,592	801,041
Total net position	<u>1,447,178</u>	<u>1,200,508</u>
Total liabilities and net position	<u>\$ 3,083,836</u>	<u>\$ 2,890,111</u>

The accompanying notes to financial statements  
are an integral part of these statements.

**GATEWAY AREA DEVELOPMENT DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**

**IN NET POSITION**

**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
REVENUES		
Federal	\$ 757,472	\$ 756,591
State	1,506,811	1,424,788
Local (includes in-kind and program income)	381,981	318,487
Revolving loan interest	17,419	17,950
Total revenues	<u>2,663,683</u>	<u>2,517,816</u>
EXPENSES:		
Salaries	614,867	646,364
Fringe benefits	312,992	317,576
Travel	52,258	57,408
Contractual	934,433	1,004,288
Other	454,023	329,130
Total expenses	<u>2,368,573</u>	<u>2,354,766</u>
OPERATING INCOME	<u>295,110</u>	<u>163,050</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	359	411
Interest expense	(49,521)	(47,767)
Total nonoperating revenues (expenses)	<u>(49,162)</u>	<u>(47,356)</u>
NET INCREASE IN NET POSITION	245,948	115,694
BEGINNING NET POSITION	1,200,508	1,054,814
Adjustments for accounts receivable (deferred income) and write-offs from prior years	<u>722</u>	<u>30,000</u>
ENDING NET POSITION	<u><u>\$ 1,447,178</u></u>	<u><u>\$ 1,200,508</u></u>

The accompanying notes to financial statements  
are an integral part of these statements.

# GATEWAY AREA DEVELOPMENT DISTRICT

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Grant receipts	\$ 2,202,513	\$ 2,121,520
Other receipts	400,121	488,281
Cash paid to/for:		
Payments to suppliers and providers of goods and services	(1,409,953)	(1,350,021)
Payments to employee services and benefits	(917,694)	(961,995)
Net cash provided by operating activities	<u>274,987</u>	<u>297,785</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(49,226)	(44,140)
Purchase of property, plant and equipment	(26,930)	(1,351)
Principal paid on capital debt	(24,136)	(28,095)
Net cash used for capital and related financing activities	<u>(100,292)</u>	<u>(73,586)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	359	411
Net cash provided by investing activities	<u>359</u>	<u>411</u>
NET INCREASE IN CASH	175,054	224,610
CASH AT BEGINNING OF YEAR	<u>887,903</u>	<u>663,293</u>
CASH AT END OF YEAR	<u>\$ 1,062,957</u>	<u>\$ 887,903</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	\$ 295,110	\$ 163,050
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	50,383	59,922
Prior year deferred grant activity	722	30,000
Change in assets and liabilities:		
Accounts receivable	(99,643)	57,350
Loans receivable	57,519	(106,171)
Accounts payable	(19,623)	(19,117)
Accrued expenses	9,303	5,032
Accrued leave	862	(3,087)
Funds held for Morgan County Tornado Relief Fund	(8,199)	121,844
Deferred revenues	(11,447)	(11,038)
Net cash provided by operating activities	<u>\$ 274,987</u>	<u>\$ 297,785</u>

The accompanying notes to financial statements  
are an integral part of these statements.

# GATEWAY AREA DEVELOPMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Gateway Area Development District (the "District") is a governmental non-profit corporation formed pursuant to KRS Chapter 147A which has as its primary purpose the promotion of economic development and the establishment of a framework for joint federal, state and local efforts directed toward providing basic services and facilities essential to the social, economic and physical development of a five-county area consisting of the counties of Rowan, Bath, Morgan, Menifee and Montgomery. The fifteen member Board of Directors is composed of officials of political subdivisions and private citizens within the District. Executive Order 71-1267, signed May 1969, designated the District as the official comprehensive planning and program development agency for eastern Kentucky. The Order further designated the District as the regional clearinghouse pursuant to United States Office of Management and Budget Circular A-95 known in Kentucky as KIRP, Kentucky Intergovernmental Review Process. The 1972 Kentucky Legislature introduced and passed legislation (House Bill No. 423) which created and established the District under Kentucky Law.

The purpose of the District is to promote, protect and develop the economy, health, education and general welfare and to implement projects for the people of the counties included in the District, and to further act in conjunction with adjoining area development districts in the Northeastern Kentucky area.

In evaluating how to define the government for financial reporting purposes, management of the District has considered all potential component units. The criteria for including a potential component unit within the reporting entity is (1) ability to exercise oversight responsibility, (2) scope of public services, and (3) special financing relationships. Based upon these criteria, management has not included any component units as part of the reporting entity.

#### Basis of Presentation

The financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

- Management's discussion and analysis (required supplementary information)
- Basic financial statements:
  - Entity-wide financial statements/fund financial statements
  - Notes to the financial statements

Entity-wide financial statements – the District is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. No entity wide statements are required because a single proprietary fund is used for the District.

Fund financial statements - the District's financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows.

## Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The District uses the accrual basis of accounting.

Revenues – The District recognizes revenue on the accrual basis of accounting. Grant and contract revenue is recognized as eligible expenses are incurred. Revenue is recognized on performance contracts based upon the percentage of completion or agreed upon services method.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Deferred revenue arises when funds are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

## Revolving Loan Notes Receivable

Revolving loan notes receivable are stated at face value, less an allowance for loan losses. The allowance is established through periodic charges to direct expenses.

## Compensated Absences

Full-time employees of the District accrue sick leave at the rate of 10 hours per month. Temporary and part-time employees earn no benefits. Annual leave is earned on the same basis as sick leave and both can be carried forward from one year to the next. On June 30<sup>th</sup> of each fiscal year, the accumulated sick leave balance shall not exceed 720 hours and accumulated annual leave shall not exceed 240 hours for any employee.

The accrued leave liability for accumulated annual leave reported in the statement of net position at June 30, 2013 and 2012 was \$39,357 and \$38,495, respectively.

## Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit at financial institutions.

## Inventory

Supplies and materials are charged to expenses when purchased.

## Allowance for Doubtful Accounts

The allowance for loan losses related to revolving loans is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The

evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

### Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10-40 years
Equipment	5-10 years
Furniture and fixtures	5-10 years
Automobiles	5 years
Computers and technology	3-5 years

### Budgets and Budgetary Accounting

The District is required to adopt a budget annually, file it with the County Clerk as a special district, and provide a copy to its member counties. Budgetary restrictions apply primarily at the grant level. The District utilizes the budget as an operational and management tool and a cost allocation plan is approved by the Department for Local Government. The budget is approved by the board of directors and monthly reports are presented to the board and management using budget comparisons.

### In-Kind

In-kind contributions included in the accompanying financial statements consist of donated volunteer time, facilities or services.

### Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the District. For the District, those revenues are primarily grants and interest earned on revolving loans. All other revenues are non-operating, such as investment income. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating, such as interest expense.

## New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

### **(2) ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **(3) COST ALLOCATION**

Joint costs are accumulated into a cost pool and allocated to grant programs based on direct personnel costs, per a written cost allocation plan.

All funds expended by the District are charged either to a specific grant and/or program element as a direct charge or allocated to all programs as a shared (indirect) cost. Direct charges are defined in OMB Circular A-87 as those that can be identified specifically with a particular cost objective. Shared (indirect) costs are those incurred for a common or joint purposes benefiting more than one grant and/or program element. All costs are recognized under the provisions of OMB Circular A-102. Below is a listing of direct and shared costs as they are charged by the District.

1. Salaries - The salaries of all employees, both professional and supportive, are charged directly to program elements based on the amount of actual time attributable to each, in accordance with the bi-weekly time sheet. Significant hours expended are recognized as a direct cost to the respective program element(s) in which the employee worked. Central administrative staff (including the Executive Assistant, Staff Assistant, Finance Officers and Executive Director's time) is customarily charged as shared. If an unusual amount of time is expended towards a specific element(s), or if these employees serve in a dual-role, they may charge hours directly to those programs accordingly – as deemed appropriate and necessary by the Executive Director. All program planners and coordinators salaries are



- charged as direct costs to the respective program element(s) in which they work. If these employees also assist with overall office-wide tasks (such as web page maintenance or providing computer and technical support), those hours are charged as shared.
2. Fringe Benefits - Burden is charged in like manner as the employee's salary by its proportionate share and is automatically calculated via the payroll software. All employee burden (e.g. FICA, workman's compensation, retirement, health insurances, etc.) which can be specifically related to an employee whose salary is being charged as a direct cost is also charged as a direct cost. The employee burden related to an employee whose salary is charged as a shared cost is charged as a shared cost. If an employee burden cost cannot be broken down by a specific element or employee with an acceptable degree of accuracy (such as the burden associated with used vacation hours), it is charged as a shared cost.
  3. Shared Costs - The shared cost pool is comprised of costs that either (a) cannot be attributed directly to a program (b) relates to *all* the work that the District performs (c) is general administrative by nature or (d) relates to District facilities. At the end of each month, this pool of shared cost is distributed among the work elements directly in relation to the total personnel cost for the staff working the program.
  4. Consultant Contracts and Contractual Services - All consultant contracts are charged as direct cost to the specific appropriate element.
  5. Printing and Publications - Printing which is directly attributable to a specific work element is charged as a direct cost to the element, and consideration has been given to those direct costs in preparing the budget. Publications, whether prepared in-office or out-of-the office, are charged to those specific work elements to which they apply. Ads, notices of hearing, etc. that must be printed as legal notices are charged as direct costs where they can be identified in a sufficient amount. Advertising incurred to recruit new personnel is charged to the work element for which the position relates. In areas where the cost is minor or may benefit numerous work elements, the cost may be charged as shared. Miscellaneous or office-wide needs (envelopes, checks, letterhead, etc.) is charged as a shared cost.
  6. Travel - Business-related travel costs are incurred for a specific purpose. All approved travel expenses is charged against the same program or element for which the employee's time is charged, as supported by his/her timesheet. Due to the limited number of staff and funds available, staff persons frequently utilize trips to cover more than one work element. If determined appropriate and necessary by the Executive Director, an employee whose travel pertains to more than one work element and can specifically identify those work elements, may also charge the cost to more than one work element.
  7. Board Travel - Board members who travel pertaining to a specific element, charges travel to that work element for which the travel expense is incurred. Any travel that does not pertain to a certain work element will be charged as a shared cost.
  8. Vacation Leave - At the end of each month, the cost associated with the full-time employees' earned vacation hours is charged to leave accrual accounts. The accounting software then allocates a proportionate share of the total monthly amount to each element for which the employee worked during that month. Vacation earned, which pertains to shared cost salaries, is also charged as shared cost. These provisions permit the correct charging of each element and assure that each grant fund is charged equitably for vacation accrual.
  9. Audit and Accounting Fees - Costs related to the District's annual external audit, performed by an independent CPA firm, are charged as a shared cost. The accounting system then permits each element to accept its proportionate amounts of charges. Any additional charges that are directly related to extra work in a specific element will be charged directly to the program.
  10. Space Cost - Space-related expenses and routine repair and maintenance is charged as a shared cost, unless otherwise determined by the Executive Director to be exclusively for a specific work element. The District's mortgage payment, utilities, insurance, depreciation, cleaning, and general upkeep or repairs are included as shared cost.
  11. Telephone/Internet - Generally telephone and internet charges is charged as a shared cost. If a particular grantee requires a special service, such as a toll-free number, that cost will be charged directly to the corresponding work element.
  12. Fixed Asset Additions - General-purpose non-consumable items (such as buildings,

vehicles, equipment, or computers) are capitalized and depreciated via the straight-line method over the asset's useful life. Depreciation is charged monthly as a shared cost. Equipment or other capital purchases are not charged as a shared cost.

13. Equipment-Rental/Lease/Maintenance - All equipment rentals, purchases, and maintenance costs are charged as shared cost unless the corresponding piece of equipment is used exclusively by a specific element or grant award.
14. Supplies/Materials/Postage – The Staff Assistant purchases commonly used items to keep in a central location accessible by all employees. These items are charged as a shared cost. Other items that are identifiable with a specific program area are charged directly to that work element.
15. Meetings and Conferences – The cost associated with hosting a meeting or conference (food, materials, etc.) for which the primary purpose is the dissemination of technical information is charged to the work element for which it relates. If the meeting benefits the entire agency, such as the District's board meetings, the costs is charged as shared. If determined appropriate and necessary by the Executive Director, meetings serving a dual-purpose may be charged to more than one work element.
16. Dues/Subscriptions/Memberships – The majority of these costs is for the agency as a whole, or for the Executive Director, and is recognized as a shared cost. If the item relates to a specific employee, such as a required licensure, the cost is charged as a direct cost to their primary work element.

All additional costs not identified above are charged as (a) a direct cost if specifically identifiable with a particular element or (b) as a shared cost if incurred for a common or joint purpose benefiting more than one element and is not readily assignable.

#### (4) GRANTS RECEIVABLE

Federal, state, and local receivables are expected to be fully collectible. At June 30, 2013 and 2012 local receivables are shown net of an allowance of \$-0- and \$2,979, respectively. Federal, state, and local grants receivable consists of the following:

	2013	2012
Aging	\$ 90,534	\$ 92,259
CDO	108,654	84,100
Hazard Mitigation	-	24,196
Transportation	11,590	14,524
WIA	798	-
Meniffee County ARC Planning	6,277	7,408
Morgan/Wolfe Rural Development	138,631	73,225
Various Local	164,672	138,505
EDA Technical Assistance	12,704	-
	<u>\$ 533,860</u>	<u>\$ 434,217</u>

#### (5) LOANS RECEIVABLE

The Revolving Loan Program was established by initial grants from the Economic Development Administration to assist high-risk small businesses in the area local communities with infrastructure.

The Nonprofit Housing Production Loan Program's funding originates from the Kentucky Housing Corporation to provide loans to purchase or rehabilitate homes for low-income individuals.

	2013	2012
Revolving loans - business	\$ 664,546	\$ 718,704
NHPLP	70,029	73,390
Total loans	734,575	792,094
Less: allowance for NHPLP	(17,416)	(17,416)
Less: allowance for RLP	(235,353)	(235,353)
Net loans	481,806	539,325
Less: current portion	(67,622)	(114,600)
Long-term portion of loans	<u>\$ 414,184</u>	<u>\$ 424,725</u>

#### (6) REVOLVING LOAN PROGRAM

The District received a grant of \$500,000 from the U.S. Department of Commerce, Economic Development Administration (EDA) to establish a revolving loan program to stimulate economic development in the area. In addition, the District provided a local match of \$167,000, as required by the grant. At June 30, 2013 and 2012, the accompanying financial statements include revolving loans receivable of \$664,546 and \$718,704 and cash of \$245,744 and \$189,592, respectively.

#### (7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Deductions	June 30, 2013
Land, not being depreciated	\$ 18,500	\$ -	\$ -	\$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331
Equipment and vehicles	460,764	26,930	-	487,694
Totals at historical cost	1,570,595	26,930	-	1,597,525
Less: accumulated depreciation	(554,594)	(50,021)	-	(604,615)
Capital Assets - Net	<u>\$ 1,016,001</u>	<u>\$ (23,091)</u>	<u>\$ -</u>	<u>\$ 992,910</u>

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	June 30, 2011	Additions	Deductions	June 30, 2012
Land, not being depreciated	\$ 18,500	\$ -	\$ -	\$ 18,500
Assets being depreciated:				
Buildings	1,091,331	-	-	1,091,331
Equipment and vehicles	459,413	1,351	-	460,764
Totals at historical cost	1,569,244	1,351	-	1,570,595
Less: accumulated depreciation	(495,034)	(59,560)	-	(554,594)
Capital Assets - Net	<u>\$ 1,074,210</u>	<u>\$ (58,209)</u>	<u>\$ -</u>	<u>\$ 1,016,001</u>

#### (8) LONG-TERM DEBT

A summary of activity in long-term debt obligations is as follows:

Description	Balance at June 30, 2012	Issued	Payments	Balance at June 30, 2013
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2017	\$ 116,331	\$ -	\$ 10,277	\$ 106,054

USDA Rural Development, secured by office building, \$100,000, 4.125%, due May, 2040	99,615	-	-	99,615
USDA Rural Development, secured by office building, 2 loans of \$550,000, 4.125%, due June, 2047	<u>1,055,122</u> <u>\$ 1,271,068</u>	<u>-</u> <u>\$ -</u>	<u>13,858</u> <u>\$ 24,135</u>	<u>1,041,264</u> <u>\$ 1,246,933</u>
<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
Kentucky Housing Corporation, various loans, each with a 20-year maturity, bearing interest at a rate of 1%, maturing June, 2017	\$ 126,613	\$ -	\$ 10,282	\$ 116,331
USDA Rural Development, secured by office building, \$100,000, 4.125%, due May, 2040	99,615	-	-	99,615
USDA Rural Development, secured by office building, 2 loans of \$550,000, 4.125%, due June, 2047	<u>1,072,936</u> <u>\$ 1,299,164</u>	<u>-</u> <u>\$ -</u>	<u>17,814</u> <u>\$ 28,096</u>	<u>1,055,122</u> <u>\$ 1,271,068</u>

Minimum future principal and interest requirements relating to the above notes are as follows at June 30, 2013:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2014	\$ 27,133	\$ 48,224	\$ 75,357
2015	27,779	47,427	75,206
2016	28,503	46,601	75,104
2017	29,257	45,837	75,094
2018	30,042	45,042	75,084
2019-23	166,889	208,968	375,857
2024-28	137,116	182,469	319,585
2029-33	167,828	151,758	319,586
2034-38	205,417	114,168	319,585
2039-43	235,144	68,607	303,751
2044-47	<u>191,825</u>	<u>18,955</u>	<u>210,780</u>
	<u>\$ 1,246,933</u>	<u>\$ 978,056</u>	<u>\$ 2,224,989</u>

#### (9) DEPRECIATION RESERVES

The notes payable to the United States Department of Agriculture - Rural Development require depreciation reserve accounts be established. The District is currently required to deposit \$6,336 annually until a balance of \$63,300 is attained. The balance at June 30, 2013 and 2012 was \$39,831 and \$33,495, respectively, equal to the required balance.

#### (10) CONCENTRATIONS

The District depends on grants from federal and state sources for its continued existence.

## **(11) PENSION PLAN**

### County Employees Retirement System

Substantially all full-time employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 19.55% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ending June 30, 2013, 2012, and 2011 were \$134,067, \$124,073, and \$118,735, respectively, equal to the required contributions for the year.

## **(12) CASH**

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At year end, the carrying amount of cash was \$1,062,957. The bank balance totaled \$1,074,404, of which \$697,150 was covered by Federal depository insurance, with the remainder covered by collateral.

## **(13) CONTINGENCIES**

The District receives funding from Federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

## **(14) INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

## **(15) RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

## (16) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

## (17) LEASE COMMITMENTS

The District also has operating leases for office equipment. Rental expense for the year ending June 30, 2013 and 2012 was \$19,636 and \$19,496, respectively.

Future minimum lease payments under the operating leases are as follows:

<u>Year</u>	
2014	<u>\$ 7,950</u>

## (18) DEFERRED REVENUE

The June 30, 2013 and 2012 deferred revenue or unearned grant revenue includes revenues received, but not earned, as follows:

	<u>2013</u>	<u>2012</u>
JFA - Economic Development	\$ 337	\$ 221
JFA - CDBG	69	69
JFA - ARC	218	14,211
JFA - Management Assistance	146	142
JFA - Program Administration	277	274
Aging - Administration	57	167
Adult Day Care	97	84
Homecare - Administration	1,814	1,111
Homecare - Social Services	7,883	19,467
Title III C-1	1,043	860
Title III C-2	218	-
Title III B	1,405	1,007
Title III E	6,933	610
SHIP	570	1,478
MIPPA	(281)	2,725
Title III D	10,661	8,663
Aging - Functional Assessment	1,047	-
Aging - Community Based Care	1,489	-
KY Caregiver	229	84
Transportation	4,497	287
ADRM	1,839	1,768
Money Follows Person	6,845	6,845
PCAP	1,284	61
SWIA - Adult	4	-
SWIA - Dislocated Worker	3	-
NSIP	7,170	7,167
ARRA	55	55
	<u>\$ 55,909</u>	<u>\$ 67,356</u>

## (19) RELATED PARTY TRANSACTIONS

The District provides fiscal management services to Gateway CDO Program as Fiscal Agent (GADD CDO). GADD CDO operates the Consumer Directed Options program for the Cabinet for Health and Family Services and the Department of Aging and Independent Living (DAIL) for the Gateway Area District. Waiver clients have the option to choose CDO at any time. The District serves

as the fiscal agent for the client and as a support broker. For support broker, the District earns \$265 per month per client based upon an actual visit made by District staff. For assessments, the District earns \$100 when a new client is initially assessed or re-assessed annually. For financial management, the District earns \$100 per month per client. For medical goods, the CDO program bills the state for actual costs when the need is determined. For payroll, claims are submitted to the state after each payroll is processed. During the years ended June 30, 2013 and 2012, the District earned \$302,395 and \$260,185, respectively from the CDO program for administration and the District was owed \$108,554 and \$87,079, respectively by the CDO program.

## **(20) PRIOR YEARS GRANT ACTIVITY**

The following adjustments and write-offs have been made as a result of prior year activities:

	2013	2012
Cash	\$ 722	\$ -
Receivables	-	\$ 30,000
	<u>\$ 722</u>	<u>\$ 30,000</u>

## **(21) FUNDS HELD FOR MORGAN COUNTY TORNADO RELIEF FUND**

The District acts as the fiscal sponsor for the Morgan County Tornado Relief Fund. As of June 30, 2013 and 2012, the District held \$113,645 and \$121,844, respectively, in donations for the Morgan County Tornado Relief Fund which are included in restricted cash and a like amount as the liability Funds Held for Morgan County Tornado Relief Fund. The fund was established to assist residents of Morgan County who are victims of the March 2, 2012 tornado. Charitable contributions to the Morgan County Tornado Relief Fund are tax-deductible under section 170(c)(1) of the Internal Revenue Code, since made for a public purpose.

## **SUPPLEMENTAL INFORMATION**



# GATEWAY AREA DEVELOPMENT DISTRICT

## SCHEDULE OF SHARED COSTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
INDIRECT EXPENDITURES:		
Salaries	\$ 144,824	\$ 151,792
Fringe benefits	76,848	74,924
Travel	10,398	14,491
Accounting and audit	17,400	16,900
Equipment, leases, depreciation and amortization	75,862	85,306
Supplies	5,210	6,561
Postage	1,482	1,164
Telephone and utilities	18,774	28,960
Committee meetings	4,002	4,341
Dues, fees, and subscriptions	10,090	9,458
Insurance	16,096	14,303
Interest	49,521	47,767
Other	11,802	24,019
Total	<u>\$ 442,309</u>	<u>\$ 479,986</u>

### ALLOCATION OF SHARED COSTS:

Joint Funding Administration	\$ 86,343	\$ 86,750
Homecare	71,760	77,119
Aging Title III	35,754	43,690
Other Aging related contracts	21,594	21,607
Consumer Direct Options Program	77,172	62,226
WIA	6,165	4,659
Menifee County ARC Planning	8,199	7,428
Morgan/Wolfe Rural Development	24,842	31,834
Transportation Planning	26,649	29,020
NIMS	-	1,058
EDA Technical Assistance Grant	11,302	-
Revolving Loan Program	3,477	4,755
NHPLP Grants	464	359
Hazard Mitigation	6,090	16,755
KYTC Roadway and Operations	-	2,671
Performance contracts	62,498	90,055
Total	<u>\$ 442,309</u>	<u>\$ 479,986</u>

**GATEWAY AREA DEVELOPMENT DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**

**JOINT FUNDING ADMINISTRATION PROGRAM**

**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budget</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	Budget Over (Under) <u>Actual</u>
<b>REVENUES</b>					
Federal	\$140,512			\$140,512	\$ -
State	87,836			87,712	(124)
Local Funds	-			-	-
Total revenues	<u>228,348</u>			<u>228,224</u>	<u>(124)</u>
<b>EXPENSES</b>					
Community & Economic Planning & Development (120)	85,125	52,704	31,865	84,569	556
Community Development Block Grant (125)	31,000	19,511	11,573	31,084	(84)
Appalachian Regional Commission Planning (130)	111,986	69,524	42,817	112,341	(355)
Management Assistance (140)	119	71	44	115	4
Program Administration (150)	118	71	44	115	3
Total expenses	<u>228,348</u>	<u>141,881</u>	<u>86,343</u>	<u>228,224</u>	<u>124</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING

FOR THE YEAR ENDED JUNE 30, 2013

	Aging Adminis- tration	Support Services B	Cong. Meals C-1	H.D. Meals C-2	Health Prevention D	Caregiver E	Ombuds- man - VII	Elder Abuse VII	Disaster Assistance	Functional Assessment	Transitions	Totals
REVENUES												
Federal grant	\$ 40,570	\$ 136,555	\$ 97,449	\$ 60,759	\$ 3,045	\$ 36,383	\$ 3,064	\$ 1,520	\$ 38,688	\$ -	\$ -	\$ 418,033
State grant	17,044	15,618	17,269	20,843	4,546	15,000	-	-	-	1,953	13,811	106,084
Local	-	53,318	30,777	84,108	-	-	541	268	-	-	-	169,012
Program income	-	2,470	20,031	2,286	-	-	-	-	-	-	-	24,787
Local funds applied	-	-	-	-	-	-	-	-	1	-	-	1
Total revenues	<u>57,614</u>	<u>207,961</u>	<u>165,526</u>	<u>167,996</u>	<u>7,591</u>	<u>51,383</u>	<u>3,605</u>	<u>1,788</u>	<u>38,689</u>	<u>1,953</u>	<u>13,811</u>	<u>717,917</u>
EXPENSES:												
Direct expenses:												
Salaries	19,705	2,355	34	-	1,955	12,030	-	-	-	424	5,908	42,411
Fringe benefits	13,797	1,780	33	-	1,168	4,226	-	-	-	297	2,017	23,318
Staff travel	1,060	23	-	-	563	641	-	-	994	780	192	4,253
Contracts	-	197,488	162,209	166,742	-	-	3,605	1,788	-	-	-	531,832
Other	2,069	3,725	3,208	1,254	1,948	24,304	-	-	37,695	-	731	74,934
Total direct expenses	<u>36,631</u>	<u>205,371</u>	<u>165,484</u>	<u>167,996</u>	<u>5,634</u>	<u>41,201</u>	<u>3,605</u>	<u>1,788</u>	<u>38,689</u>	<u>1,501</u>	<u>8,848</u>	<u>676,748</u>
Shared costs	<u>20,983</u>	<u>2,590</u>	<u>42</u>	<u>-</u>	<u>1,957</u>	<u>10,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>452</u>	<u>4,963</u>	<u>41,169</u>
Total expenses	<u>57,614</u>	<u>207,961</u>	<u>165,526</u>	<u>167,996</u>	<u>7,591</u>	<u>51,383</u>	<u>3,605</u>	<u>1,788</u>	<u>38,689</u>	<u>1,953</u>	<u>13,811</u>	<u>717,917</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF COMPLETED GRANTS - AREA AGENCY ON AGING (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2013

	Homecare		Adult Day Services	Personal Care Program	NSIP	ADRC	CMS - SHIP	LTC Ombudsman	KY Grandparents/ Caregiver	Total HC & Other	Aging, HC & Other Totals
	Adminis- tration	Social Services									
REVENUES											
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ 35,464	\$ 5,162	\$ 18,704	\$ -	\$ -	\$ 59,330	\$ 477,363
State grant	21,799	249,231	13,625	267,684	-	-	-	29,207	43,299	624,845	730,929
Local	-	14,682	-	-	-	-	-	-	-	14,682	183,694
Program income	-	-	-	-	-	-	-	-	-	-	24,787
Local funds applied	-	-	-	-	-	-	-	-	-	-	1
Total revenues	<u>21,799</u>	<u>263,913</u>	<u>13,625</u>	<u>267,684</u>	<u>35,464</u>	<u>5,162</u>	<u>18,704</u>	<u>29,207</u>	<u>43,299</u>	<u>698,857</u>	<u>1,416,774</u>
EXPENSES											
Direct expenses:											
Salaries	7,922	79,159	623	3,511	-	1,658	9,677	-	2,813	105,363	147,774
Fringe benefits	5,471	22,019	441	2,587	-	1,198	1,509	-	1,814	35,039	58,357
Staff travel	17	18,930	-	104	-	-	305	-	30	19,386	23,639
Contracts	-	72,178	11,895	255,502	35,464	-	-	27,315	-	402,354	934,186
Other	-	8,256	-	2,161	-	517	206	1,892	35,744	48,776	123,710
Total direct expenses	<u>13,410</u>	<u>200,542</u>	<u>12,959</u>	<u>263,865</u>	<u>35,464</u>	<u>3,373</u>	<u>11,697</u>	<u>29,207</u>	<u>40,401</u>	<u>610,918</u>	<u>1,287,666</u>
Shared costs	<u>8,389</u>	<u>63,371</u>	<u>666</u>	<u>3,819</u>	<u>-</u>	<u>1,789</u>	<u>7,007</u>	<u>-</u>	<u>2,898</u>	<u>87,939</u>	<u>129,108</u>
Total expenses	<u>21,799</u>	<u>263,913</u>	<u>13,625</u>	<u>267,684</u>	<u>35,464</u>	<u>5,162</u>	<u>18,704</u>	<u>29,207</u>	<u>43,299</u>	<u>698,857</u>	<u>1,416,774</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# GATEWAY AREA DEVELOPMENT DISTRICT

## SCHEDULE OF REVENUES AND EXPENSES

### CONSUMER DIRECTED OPTION (CDO) PROGRAM

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Support</u>	<u>Management</u>	<u>Total CDO</u>
REVENUES			
State grant	\$ 220,995	\$ 81,400	\$ 302,395
Local revenue	-	-	-
Total revenues	<u>220,995</u>	<u>81,400</u>	<u>302,395</u>
EXPENSES			
Direct expenses:			
Salaries	66,382	22,769	89,151
Fringe benefits	22,171	11,891	34,062
Staff travel	9,001	-	9,001
Contracts	247	-	247
Other	3,150	1,169	4,319
Total direct expenses	<u>100,951</u>	<u>35,829</u>	<u>136,780</u>
Shared costs	<u>55,463</u>	<u>21,709</u>	<u>77,172</u>
Total expenses	<u>156,414</u>	<u>57,538</u>	<u>213,952</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ 64,581</u>	<u>\$ 23,862</u>	<u>\$ 88,443</u>

**GATEWAY AREA DEVELOPMENT DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES**

**WORKFORCE INVESTMENT ACT**

**FOR THE YEAR ENDED JUNE 30, 2013**

	Dislocated Worker	Adult Services	Total
REVENUES			
Federal grant revenue	\$ 8,250	\$ 8,827	\$ 17,077
State grant revenue	-	-	-
Local revenue	-	-	-
Total revenues	<u>8,250</u>	<u>8,827</u>	<u>17,077</u>
EXPENSES			
Direct expenses:			
Salaries	3,603	3,828	7,431
Fringe benefits	1,170	1,243	2,413
Travel	150	242	392
Other direct costs	338	338	676
Total direct expenses	<u>5,261</u>	<u>5,651</u>	<u>10,912</u>
Shared costs	<u>2,989</u>	<u>3,176</u>	<u>6,165</u>
Total expenses	<u>8,250</u>	<u>8,827</u>	<u>17,077</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GATEWAY AREA DEVELOPMENT DISTRICT

STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES

FOR THE YEAR ENDED JUNE 30, 2013

	JFA Totals	Area Agency on Aging Totals	WIA	Meniffee County ARC Planning	Morgan/Wolfe Rural Develop- ment	Trans- portation	EDA Technical Assistance	Revolving Loan Program	NHPLP Grants	Hazard Mitigation	Performance Contracts	CDO Totals	Admin- istrative Expense	Local Operations	Totals
REVENUES															
Federal grant	\$ 140,512	\$ 477,363	\$ 17,077	\$ 14,924	\$ 65,406	\$ -	\$ 29,428	\$ -	\$ -	\$ 12,762	\$ -	\$ -	\$ -	\$ -	\$ 757,472
State grant	87,712	730,929	-	-	-	62,948	-	-	-	-	257,827	302,395	-	65,000	1,506,811
Local	-	183,694	-	8,936	74,267	7,462	-	-	-	31,430	120	-	4,241	-	310,150
Program income	-	24,787	-	-	-	-	-	13,195	2,636	-	-	-	-	48,991	89,609
Local funds applied	-	1	-	-	-	-	-	-	1,588	-	-	-	-	(1,589)	-
Total revenues	<u>228,224</u>	<u>1,416,774</u>	<u>17,077</u>	<u>23,860</u>	<u>139,673</u>	<u>70,410</u>	<u>29,428</u>	<u>13,195</u>	<u>4,224</u>	<u>44,192</u>	<u>257,947</u>	<u>302,395</u>	<u>4,241</u>	<u>112,402</u>	<u>2,664,042</u>
EXPENSES															
Direct expenses:															
Salaries	85,861	147,774	7,431	7,798	24,364	25,010	11,484	3,196	486	6,246	61,242	89,151	144,824	-	614,867
Fringe benefits	51,995	58,357	2,413	5,166	15,299	17,538	6,560	2,356	255	3,602	38,541	34,062	76,848	-	312,992
Staff travel	2,845	23,639	392	493	532	713	82	232	-	132	3,799	9,001	10,398	-	52,258
Contracts	-	934,186	-	-	-	-	-	-	-	-	-	247	-	-	934,433
Other	1,180	123,710	676	2,204	74,636	500	-	213	3,019	28,122	30,101	4,319	210,239	24,625	503,544
Total direct expenses	<u>141,881</u>	<u>1,287,666</u>	<u>10,912</u>	<u>15,661</u>	<u>114,831</u>	<u>43,761</u>	<u>18,126</u>	<u>5,997</u>	<u>3,760</u>	<u>38,102</u>	<u>133,683</u>	<u>136,780</u>	<u>442,309</u>	<u>24,625</u>	<u>2,418,094</u>
Shared costs	<u>86,343</u>	<u>129,108</u>	<u>6,165</u>	<u>8,199</u>	<u>24,842</u>	<u>26,649</u>	<u>11,302</u>	<u>3,477</u>	<u>464</u>	<u>6,090</u>	<u>62,498</u>	<u>77,172</u>	<u>(442,309)</u>	<u>-</u>	<u>-</u>
Total expenses	<u>228,224</u>	<u>1,416,774</u>	<u>17,077</u>	<u>23,860</u>	<u>139,673</u>	<u>70,410</u>	<u>29,428</u>	<u>9,474</u>	<u>4,224</u>	<u>44,192</u>	<u>196,181</u>	<u>213,952</u>	<u>-</u>	<u>24,625</u>	<u>2,418,094</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,766</u>	<u>\$ 88,443</u>	<u>\$ 4,241</u>	<u>\$ 87,777</u>	<u>\$ 245,948</u>

GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
<u>Appalachian Regional Commission</u>			
JFA-ARC Planning	23.009	KY-0702D-C43	\$ 27,987
JFA-ARC Planning	23.009	KY-0702D-C44	28,025
Menifee County ARC Planning	23.011	KY-17058-2011	14,924
Total Appalachian Regional Commission			<u>70,936</u>
<u>Economic Development Administration</u>			
Investments for Public Works and Economic Development Facilities	11.300	N/A	* 742,345
Economic Adjustment / Disaster Recovery	11.307	04-79-06687	* 29,428
Total Revolving Loan Program Cluster			<u>771,773</u>
Passed Through the State Department of Local Government - JFA - Community and Economic Assistance	11.302	PON2 130000338	69,000
Total Economic Development Administration			<u>840,773</u>
<u>U. S. Department of Housing &amp; Urban Development</u>			
Passed Through the State Department of Local Government - JFA-Community Development Block Grant	14.219	PON2 130000338	15,500
Total Department of Housing & Urban Development			<u>15,500</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through the Kentucky Cabinet for Health and Family Services - Title III-B - Supportive Services	93.044	PON2 725 12000010522	* 177,125
Title III-C1 - Congregate Meals	93.045	PON2 725 12000010522	* 97,449
Title III-C2 - Home Delivered Meals	93.045	PON2 725 12000010522	* 60,759
Nutrition Services Incentive Program	93.053	PON2 725 12000010522	* 35,464
Total Aging Cluster			<u>370,797</u>
Title III-E - Family Caregiver	93.052	PON2 725 12000010522	36,383
Title III-D - Aging Program Preventive Health	93.043	PON2 725 12000010522	3,045
Title VII - Elder Abuse Prevention	93.041	PON2 725 12000010522	1,520
Title VII - Ombudsman	93.042	PON2 725 12000010522	3,064
Disaster Assistance	93.048	PON2 725 12000010522	38,688
CMS - SHIP	93.779	PON2 725 12000010522	18,704
Aging and Disability Resource Center (ADRC)	93.048	PON2 725 12000010522	5,162
Total Passed Through the State (CHFS DAIL)			<u>477,363</u>
Total Department of Health and Human Services			<u>477,363</u>

The accompanying notes are an integral part of this schedule.



GATEWAY AREA DEVELOPMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed Through the State (Division of Emergency Management) -			
Pre-Disaster Mitigation	97.047	PON2 095 12000039491	12,762
Total U.S. Department of Homeland Security			12,762
<u>U.S. Department of Agriculture - Rural Development</u>			
Morgan/Wolfe Rural Business Enterprise Grant	10.769	21-003-929076374	65,406
Total U.S. Department of Agriculture - Rural Development			65,406
<u>U.S. Department of Labor</u>			
Passed Through TENCO-PIC -			
WIA - Adult	17.258	FY13-5410	8,827
WIA - Dislocated Worker	17.260	FY13-5410	8,250
Total WIA Cluster			17,077
Total U.S. Department of Labor			17,077
Total Expenditures of Federal Awards			\$ 1,499,817

\* Denotes Major Program.

The accompanying notes are an integral part of this schedule.

# GATEWAY AREA DEVELOPMENT DISTRICT

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

### (1) BASIS OF PRESENTATION

This accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Gateway Area Development District (the District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### (3) LOANS

At June 30, 2013, the District had loans outstanding in the amount of \$664,546 with an allowance for doubtful accounts of \$235,353 under the Title IX-RLF loan program.

### (4) SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA #</u>	<u>Amount Provided</u>
Title III	93.044 & 93.045	\$ 283,431
Ombudsman	93.042	3,064
Elder Abuse	93.041	1,520
Nutrition Services Incentive Program	93.053	35,464



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gateway Area Development District, which comprise the statements of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Gateway Area Development District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gateway Area Development District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gateway Area Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kelley, Galloway & Company, PSC*

September 30, 2013



Kelley,  
Galloway &  
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Gateway Area Development District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gateway Area Development District's major federal programs for the year ended June 30, 2013. Gateway Area Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Gateway Area Development District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gateway Area Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Gateway Area Development District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Gateway Area Development District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of Gateway Area Development District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gateway Area Development District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kelley Galloway & Company, PSC*

September 30, 2013

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**A. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements-***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- ☐ Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- ☐ Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to the financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards-***

Internal control over major programs:

- ☐ Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- ☐ Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of Major Programs CFDA No.

Title III Aging Cluster	93.044 & 93.045 & 93.053
Title IX RLP Cluster	11.300 & 11.307

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee?   X   Yes \_\_\_\_\_ No

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**B. FINANCIAL STATEMENT FINDINGS**

None noted in the current year.

**C. FEDERAL AWARD FINDINGS AND QUESTIONED**

None noted in the current year.



**GATEWAY AREA DEVELOPMENT DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings in the prior year.

**GATEWAY AREA DEVELOPMENT DISTRICT**

**CORRECTIVE ACTION PLAN**

**FOR THE YEAR ENDED JUNE 30, 2013**

NAME OF CONTACT PERSON

Gail Wright, Executive Director

(606) 780-0090

CORRECTIVE ACTION PLANNED

No corrective action needed.